

Direct and Indirect Barriers to World Trade *(Teacher Resource)*

Countries use barriers to trade so that they can protect jobs, newly developing industries, and national pride.

The practice of using direct barriers such as quotas and tariffs is referred to as protectionism. Direct barriers to trade include the use of subsidies-financial payments made by the government for certain actions.

Tariffs: Taxes on imported goods.	
Who is Helped?	Who is Hurt?
Protects domestic industries by taxing foreign imports.	Foreign industries are hurt since tariffs increase the cost of production and the cost is passed on to consumers through higher prices.
Domestic workers' jobs are protected from foreign competition since there are fewer products in the market.	Consumers are hurt because fewer imports are available in the market and they pay higher prices due to a lack of competition.

Product Standards: Minimum production standards for health, safety, and environmental effects.	
Who is Helped?	Who is Hurt?
Consumers benefit from goods that meet minimum standards for health, safety, and its effect on the environment.	Product standards can be an indirect barrier to trade since it may be too costly for foreign businesses to change their method of production to meet the product standards of another country.

Subsidies: Payments made by government for certain actions (usually for farmers in the United States)	
Who is Helped?	Who is Hurt?
Subsidies enable producers to sell their products for less. This causes demand for the United States product to increase.	Because subsidies cause the price of the United States product to decrease, the demand for similar foreign products (imports) decreases.

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Currency Exchange: Value of a nation's currency compared to another nation's currency	
Who is Helped?	Who is Hurt?
When a nation's currency is strong compared to other countries, domestic consumers are able to buy more foreign imports for their money.	When a nation's currency is strong compared to other currencies, domestic producers have fewer exports since foreign currencies purchase less for their money.

Quotas: Limits to the amount of an important good	
Who is Helped?	Who is Hurt?
Protects domestic industries by setting a limit to the amount of foreign imports. Domestic workers' jobs are protected from foreign competition since there are fewer foreign products in the market.	Foreign industries are hurt since they are limited by the amount of goods they may export. Consumers are hurt because of fewer products available in the market.

Monetary Policy: The Federal Reserve will buy or sell US currency in the foreign currency exchange market to manage the value of the dollar (against other nation's currency)	
Who is Helped?	Who is Hurt?
If the Fed buys the United States dollar, the supply of the dollar decreases and the supply of other currencies increases relative to it. This increases the value of the dollar.	If the Fed sell the United States dollar, the supply of the dollar increases and the supply of other currencies decreases relative to it. This decreases the value of the dollar.